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SUBJECT: CAMEROON'S 2010 BUDGET - BIG SPENDING, BIG DEBTS

¶1. (SBU) Summary: Cameroon's 2010 budget was passed on December 1 under optimistic economic assumptions by a grumbling parliament. It is over 11 percent larger than last year's budget. Nearly \$1 billion in revenue shortfalls are expected to be filled by a first-ever bond offering and withdrawals from Central African bank (BEAC) reserves. Salaries continue to make up the lion's share of spending, with the education, defense, public works, and health sectors given the largest budgets. The budget includes a 54 percent increase in public investment, which should boost infrastructure projects but could be hampered by historically poor budget execution. The budget seems clearly designed to help President Biya in upcoming elections, which some believe will be moved up to 2010. End Summary.

Ambitious Growth Projections

¶2. (SBU) The budget is based on forecasts of 3.9 percent GDP growth in 2010, 3 percent inflation, oil prices trading at \$70 per barrel and an exchange rate of 446 FCFA/dollar. The growth forecast is more ambitious than the IMF estimate of 2.6 percent growth and the latest forecast from the Economist Intelligence Unit (EIU), which predicts 1.4 percent growth. The inflation and oil predictions are not too far off from EIU estimates of oil at \$75 and inflation at slightly higher than 3.5 percent (the official 2009 rate was around 3 percent).

Ambitious Spending, Rising Internal Debt

¶3. (SBU) Cameroon's 2010 budget is 11.7 percent larger than in 2009, coming in at over \$5.7 billion. Internal revenues are expected to be \$4.36 billion (75.6 percent of total revenues), a 5.4 percent drop from 2009, mainly because of an anticipated 24 percent decline in oil revenues from 2009 to 2010. Non-oil internal revenues are projected to increase by a mere 1.3 percent. External revenues (including loans and grants), which make up less than 9 percent of total income, are expected to drop by 10.5 percent. This will leave a revenue shortfall of about \$900 million, which the GRC plans to fill by issuing, for the first time, \$448 million in treasury bonds. In addition, in a move not explained to the public, the government also plans to draw \$460 million from its regional central bank (BEAC) reserves (8 percent of its total), according to IMF sources.

More Investment in Big Projects

¶4. (SBU) The budget increases public investment by 54 percent, from \$982 million in 2009 to \$1,517 million in 2010, making up 26.3 percent of total 2010 planned expenditures. This reflects a government decision to "pre-finance" a number of projects that in the past had been delayed because of a lack of government contributions. In the energy sector, the Lom Pangar and Memve'ele dams, and the Kribi thermal plant get a \$90 million total line item. Other 2010 line items include the Wouri bridge (\$24 million), the

Kribi port (\$76 million) and the telecommunication backbone (\$10 million). This budget reflects a shift from funding many dispersed micro projects to supporting large infrastructure.

Other Priorities Remain the Same

¶5. (U) The 2010 budget allocates \$3.42 billion (59.4 percent) to operating expenses, slightly higher than in 2009. As usual, most of this account will go to pay the salaries of public servants, including additional personnel to be hired over the next year in the army, police, and education and health ministries. It will also be used to adjust benefits of currently employed staff.

¶6. (U) In part because of the ministry's large payroll, education is the biggest sectoral line item, accounting for 16.3 percent of the total budget (8.1 percent for secondary education, 6.5 percent of for basic education and 1.7 percent for higher education). Defense makes up the next biggest expense, accounting for 9.7 percent of the total budget (6.8 percent for the Ministry of Defense and 2.9 percent to the police). Public works, urban development and housing make up 9.1 percent of the budget and public health comes as the fourth largest sectoral budget, accounting for 4.8 percent of the total budget. This is in keeping with past trends, since these ministries traditionally get the largest budgets.

Budget Controversies

¶7. (SBU) Parliamentarians of all stripes, including from the ruling Cameroon People's Democratic Movement (CPDM), criticized the government's late submission of the budget. By law, the budget is

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due fifteen days before the opening of the budget session. The government sent its proposal to the National Assembly on November 17, ten days after its opening. In addition, parliamentarians criticized specific line items, including \$92 million budgeted for fuel for government vehicles and \$137 million for government travel and representation abroad. One opposition member wanted to submit a draft amendment increasing transparency in the Presidential budget and limiting funds accessible by President Biya. Biya's salary is not known and there is very little transparency in the use of the budget allocated to the Presidency. For 2010, the Presidency budget stands at \$129 million, representing a 14 percent increase over the previous year. Social Democratic Front (SDF) members boycotted the final vote on the budget as they deemed that it did not meet the average Cameroonian demand for job creation and road construction. In the end, the parliamentarians adopted the financial law on December 1 with little modification.

¶8. (SBU) The government continues to have difficulties spending its investment budget. Ministries are usually authorized to start spending in early March and directed to stop committing credit at the end of November, leaving only 9 months to implement the budget. While the operating budget, mostly salaries, has a nearly 95 percent execution rate, investment budget execution rarely exceeds 65 percent. The World Bank recently estimated the 2008 execution rate of the investment budget to be 50.1 percent. A prominent NGO, Dynamique Citoyenne, estimates the investment budget hit 77 percent execution in 2007, but points out there is no real way to know exactly how much money is spent, since the government's published spending log book only accounts for 17 percent of project spending.

¶9. (SBU) Prominent, controversial Cameroonian economist Babissakana pointed out in local newspapers that the lag in execution has led to what should be an accumulated budget surplus of almost \$4 billion. He has asked where the money has gone, especially in light of the government's stated need to float bonds and accept a \$144 million Exogenous Shock Fund loan from the IMF. Responding to that direct question at a recent World Bank seminar, Finance Minister Essimi Menye vaguely explained that some budgeted funds have been transferred to accounts in future years for the same projects. The money should be in government accounts at BEAC, but the government has yet to explain this publicly.

Comment

¶10. (SBU) Biya is increasingly in campaign mode and many observers believe he may call early presidential elections in 2010 instead of ¶2011. The 2010 budget is clearly a political budget, anticipating major borrowing to boost employment through infrastructure projects and a larger government payroll and to increase the Presidency's purse. Additional infrastructure investment is long overdue and is critical to Cameroon's longer-term economic growth. However, in a year of declining revenues, an 11 percent budget increase - even assuming reasonable budget execution - is a gamble, especially when the new infrastructure will not come on line for several years. While high public spending on education and health is needed, agriculture and rural development - Cameroon's major productive sector - will get surprisingly little funding (2.3 percent of the total budget - half of the budget for health).

¶11. (SBU) This year's budget process reinforced once again the fact that ordinary citizens as well as parliamentarians have virtually no say in the budget. The opaque budget process - we have not seen many of the budget details yet (including the ELECAM budget) - will make it difficult to see how all this money gets spent. This opacity will make it even easier to use the budget as an instrument of election politics.

PETERSON